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Egypt's election over, what now for the economy?

By Dalibor Rohac
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Abdel Fattah el-Sisi's landslide victory in the presidential race, with over 93 per cent of the popular vote, is a result not only of his undeniable popularity among some parts of the Egyptian public, but also of the repression of media and political competition that preceded the election. Following the coup in July 2013, more than 16,000 people have been imprisoned, for crimes that included criticizing the military regime on Twitter.

If el-Sisi's victory raises doubts about the future of democracy in Egypt, it also leaves unanswered a host of pressing economic concerns. By any account, Egypt's economy is in a worse shape than before the events of the Arab Spring. The official unemployment rate in the first quarter of 2014 was at 13.4 per cent, up by 0.2 per cent relative to the same period last year. Compared to 2010, the number of unemployed has grown from 2.4m to 3.7m. Some 26 per cent of the population is living under the official poverty line, set at around $1.50 a day.

So far, el-Sisi has been mostly silent about his plans for the economy, alluding to the need for reforms but never expanding on the specifics. In the meantime, the military have increased their control of the economy, with more and more public procurement contracts being awarded to companies controlled by the generals.

Whilst in the final years of Hosni Mubarak's regime, the military had to compete against other interest groups – most notably against Mubarak's family and cronies – there are very few constraints preventing it from pillaging the public purse this time around.

The status quo is not sustainable, however, as it risks dragging Egypt from one fiscal and economic crisis into another. Last weekend, the government approved its draft budget for fiscal year 2014/2015, which – instead of tackling the country's chronic deficit (estimated at 12 per cent of GDP) – further increases public spending by 10 percent. Although the details are unclear, the government will try to continue making modest – but commendable – progress tackling the burden posed by subsidies of consumer products such as fuels and food. Subsidies to hydrocarbon products are to be cut by a quarter, from almost $19bn to less than $15bn.

At the same time, the use of smart cards for purchases of subsidised commodities is being expanded. In Cairo's suburbs, for example, citizens are now required to register to receive smart cards in order to purchase subsidised bread. In order to limit the size of black markets in subsidised flour, the government will also start to provide subsidies for bakeries' purchases of subsidised flour ex post, based on the sales of final products, and not in bulk as before.

Notwithstanding these measures, subsidies will likely remain a major problem – not only fiscally but also because they are not very effective in helping the poor and the vulnerable. So far there have been no indications that the government want to replace them, in whole or in part, with cash transfer-based ways of assisting those in need.

More importantly, poor Egyptians need access to economic opportunity. Egypt ranks 108th on Fraser Institute's Economic Freedom of the World Index, lagging markedly behind Tunisia (81st) or Morocco (98th) – not to speak of Jordan (13th). Not only has the country not made progress in making its business environment friendlier to investors, it has not even implemented the arguably low-cost and potentially popular formalisation of land titles of poor people – suggested many years ago by the Peruvian economist Hernando de Soto.

None of this bodes too well for the future of Egypt. el-Sisi's popular support arguably relies on his perception as a guarantor of the country's stability. In the area of economic policy, such 'stability' increasingly resembles a state of paralysis, incapable of addressing the root causes of poverty and underdevelopment in the country. This, together with the unscrupulous repression of any political opposition creates a potentially explosive mix. Unless el-Sisi's government starts building the foundations for a genuine market economy, working not just for a narrow clique but for ordinary Egyptians, we should not be too surprised if the Egyptian people took to the streets again.

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